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WHY EAST SUSSEX COUNTY COUNCIL SHOULD STOP INVESTING IN FOSSIL FUELS

BRIEFING: 27 SEPTEMBER 2019

SUMMARY

East Sussex County Council (ESCC) currently invests £145 million (4%) of the East Sussex Pension Fund in the giant oil and gas companies that are driving our current climate crisis – companies like Exxon & BP[1].

These investments are clearly incompatible with any form of climate emergency declaration. They also pose a significant financial danger to the Fund and the Council's current policy of 'engaging' with these companies isn't working. Ditching these investments ('divestment') would remove this danger while enhancing the Fund's long-term returns by helping to align it with a 1.5°C world[2].

DAMAGING OUR CLIMATE

Burning fossil fuels (oil, coal & gas) is the main driver of climate change[3]. Massive reductions in carbon emissions will be necessary before 2030 if the world's governments are to follow through on their stated commitment ('the Paris agreement') to hold global warming to 'well below' 2°C[4]. The vast majority of proven reserves of fossil fuels will have to remain in the ground unburnt[5].

Yet despite this, the oil and gas industries are forecast to spend $4.9 trillion over the next decade on new oil and gas fields - none of which is compatible with limiting warming to 1.5°C[6].

A FINANCIAL DANGER

The Governor of the Bank of England, Mark Carney, has warned that investors in these industries face 'potentially huge' losses from climate change action that could make vast reserves of oil, coal and gas 'literally unburnable'[7].

According to one recent analysis: 'Oil and gas companies risk wasting $2.2 trillion by 2030 if they base investment decisions on current emissions policies … instead of planning for continued momentum towards a low-carbon world and [the] ensuing reduced demand for fossil fuels.'[8]

A global energy transition from fossil fuels to low-carbon energy is already underway[9]. Investors in oil and gas will lose money at the point of peak demand for these commodities[10]. Carbon Tracker forecast that this will happen in the 2020s[11].

"[T]he next 10 years will be absolutely crucial in determining what kind of world will exist in the decades beyond. If we act decisively, and innovate and invest wisely, we could … avoid the worst impacts of climate change … If we do not, we face a world in which it will become increasingly difficult for us and future generations to thrive."
Professor Nicholas Stern (author of the UK Government's *Stern Review on the Economics of Climate Change*), Oct 2018

ENGAGEMENT ISN'T WORKING

The Council's policy of 'engaging' with fossil fuel companies isn't working. It has no meaningful benchmarks or timelines, little to show in way of achievements and no clear escalation strategies for companies that fail to respond[12].

Despite many years of 'engagement' not a single major oil company has re-aligned its business model with a 2°C world[13]. Moreover, there are no precedents for a company changing its core business model following pressure from shareholders.

THE DIVESTMENT ALTERNATIVE

Plenty of mainstream alternative investment options now exist which have no or very low fossil-fuel investments[14].

Over 1,100 institutions around the world – collectively managing over $11 trillion – have already made some form of divestment commitment, including several UK pension funds[15]. For example, Southwark Pension Fund made a divestment commitment in December 2016. Since then it has reduced its exposure to fossil fuel companies from roughly 4.8% of the Fund to under 1%.

WHAT NEEDS TO HAPPEN NOW

Divest East Sussex is calling on the East Sussex Pension Fund to:

(a) immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies; and
(b) divest from its existing investments in these companies within five years.

To this end they should immediately ask their investment consultants (Hymans Robertson) to provide an analysis of the implications of fossil fuel divestment and its associated risks and opportunities, with a particular focus on answering the question: "Can ESPF meet its long-term investment strategy objectives if it divests current fossil fuel holdings?"

WHO SUPPORTS DIVESTING THE EAST SUSSEX PENSION FUND?

Maria Caulfield, Conservative MP for Lewes

Hastings Borough Council

Lewes Town Council

Brighton & Hove City Council

Lewes District Council

UNISON

ENDNOTES

1 Response by the Chair of the Pension Committee to question from Frances Witt, 16 October 2018, https://tinyurl.com/145mresponse

2 A recent analysis by Jeremy Grantham, co-founder and chief investment strategist of Grantham, Mayo, Van Otterloo, one of the largest asset management firms in the world, concluded that: 'Investors with long-term horizons should avoid oil and chemical stocks on investment grounds. They face a sustained headwind. In contrast, investing in companies that benefit from decarbonising the economy, although they come with no guarantee of success, do offer a sustained tailwind; their top-line revenues will certainly be growing faster than the rest of the economy.' (*The mythical peril of divesting from fossil fuels*, 13 June 2018, https://tinyurl.com/mythicalperil).
In their latest report, the institutional investment advisor Mercer conclude that: 'Advocating for and creating the investment conditions that support a "well-below 2˚C scenario" outcome… is most likely to provide the economic and investment environment necessary to pay pensions… over the timeframes required by beneficiaries.' (*Investing in a time of climate change: the sequel 2019*, April 2019, https://tinyurl.com/climatechangesequel).

3 *Climate Change 2014: Synthesis Report Summary for Policymakers*, section SPM 1.2 'Causes of climate change', https://tinyurl.com/IPCCsynth

4 *Global Warming of 1.5˚C*, IPCC, 6 October 2018, C.1, https://tinyurl.com/ipcconepointfive

5 "70 – 75% of known fossil fuels would have to be left unused to have a 50% chance of limiting global temperature rise to below 2 degrees Celsius" Written Parliamentary Answer, *Hansard*, 9 December 2016, https://tinyurl.com/carbon-budget

6 *Overexposed: How the IPCC's 1.5˚C report demonstrates the risks of overinvestment in oil and gas*, Global Witness, April 2019, https://tinyurl.com/overinvestment

7 'Mark Carney warns investors face 'huge' climate change losses', *FT*, 29 September 2015, https://tinyurl.com/carneywarns

8 'Oil and gas companies approve $50 billion of major projects that undermine climate targets and risk shareholder returns', Carbon Tracker, 6 September 2019, https://tinyurl.com/riskshareholderreturns

9 For example, in 2014 variable renewables (such as wind and solar) were the cheapest source of new electricity in around 1% of the world. In 2019 they are the cheapest source in two-thirds of the world, and by the early 2020s, they will be cheapest in all major markets ('The trillion dollar energy windfall', Carbon Tracker, September 2019, https://tinyurl.com/trilliondollarwindfall). See also 'The Big Green Bang: how renewable energy became unstoppable', *FT*, 18 May 2017, https://tinyurl.com/whyyoushouldsee

10 '2020 Vision: why you should see the fossil fuel peak coming', Carbon Tracker, 10 September 2018, https://tinyurl.com/whyyoushouldsee . After coal demand peaked in 2014, UK public pension funds lost nearly a billion dollars as the value of their coal investments plummeted ('Almost $1bn wiped off the value of UK pensions' coal investments', *FT*, 11 October 2015, https://tinyurl.com/almost-one-billion).

11 '2020 Vision…', op. cit.

12 Pressed by members of the public the East Sussex Pension Committee has agreed that 'The Fund's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by [approximately] 2050 in line with the Paris agreement'. However, it has repeatedly refused to be drawn on any intermediate goals (between now and 2050) or any 'red lines' that would trigger divestment from a company ('Questions & answers at ESCC's Full Council meetings', https://tinyurl.com/qandaescc).

13 'Investors concerned by slow climate progress in energy sector; dragged down by coal, oil & gas', Transition Pathway Initiative, 18 September 2019, https://tinyurl.com/investorsconcerned .
According to a recent analysis by Carbon Tracker, 'every major oil company is currently betting heavily against a 1.5˚C world and investing in projects that are contrary to the Paris goals' ('Oil and gas companies approve $50 billion of major projects that undermine climate targets and risk shareholder returns', op. cit.)

14 For example Blackrock Developed Equity ex Fossil Fuel Fund, Alliance Trusts Sustainable Futures Funds, First State Asia Pacific Sustainable Fund, Schroders Global Climate Change Fund. Legal and General has developed a low carbon fund for the Environment Agency Pension fund. Over the last 5 years the fossil fuel-free indices from FTSE, Standard and Poors and MSCI have each out-performed the same index with fossil fuel companies in them. These examples do not constitute investment advice.

15 'Sharp rise in number of investors dumping fossil fuel stocks', *FT*, 9 September 2019, https://tinyurl.com/sharprise

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